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FROM AMBASSADOR VAN VOORST

E.O. 12958: N/A

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SUBJECT: ICELAND SCENESETTER FOR UNDER SECRETARY NICHOLAS BURNS

REFS: A) STATE 79494 B) REYKJAVIK 169

¶1. (SBU) The Mission and I welcome you most warmly to Iceland. Your timing could not be better. The May 12 parliamentary elections strengthened Prime Minister Haarde's mandate to govern. A new Foreign Minister (and unabashedly would-be future PM) is wary of us but open to an exchange of views. Bold initiatives on the use of the Keflavik facilities have eased public resentment over the closure of the base, and a series of defense activities in Iceland are providing visible reassurance to the public that the U.S. remains committed to Iceland's defense. Your visit builds on the Washington bilaterals at State and Defense last October in meeting our Joint Understanding commitment to hold periodic high-level strategic discussions with the Icelanders. You will find your hosts more self-assured and more relaxed with us than they were last summer - and with a clearer concept of Iceland's role in NATO's North Atlantic neighborhood. I hope that you will leave them with a stronger sense of the role this rich and dynamic country can play in global affairs writ large.

¶2. (SBU) You arrive a month after elections resulted in a strong new coalition government of PM Haarde's Independence Party and the Social Democratic Alliance (SDA). While the government is still in its shake-down period, the SDA's assumption of six of the twelve cabinet ministries is proceeding relatively smoothly. The Prime Minister -- by a huge margin the most popular politician in Iceland -- remains a calm, pragmatic partner and a personable, witty interlocutor. Although he has returned formal oversight of defense-related issues to the Foreign Ministry, Haarde will continue to exert a strong influence on Iceland's foreign policy. SDA chair Ingibjorg Solrun Gisladottir is adjusting to the change from opposition leader to Foreign Minister. Although known for voicing quick and firm opinions on domestic and foreign policy issues, she was uncharacteristically quiet and careful with her words in my courtesy call earlier this week. Other ambassadors confirm she has been listening more than speaking in their initial calls. Gisladottir has made waves, however, by insisting that the coalition government agreement contain language "regretting" the war in Iraq. She has also noted her general disapproval of the current U.S. administration and has announced her interest in establishing "normal" relations with the Palestinian Unity Government. The PM-hosted working lunch on Thursday will be our first chance to observe the interplay between Haarde and Gisladottir in a non-campaign setting.

¶3. (SBU) Your visit coincides with the arrival of a 3-ship NATO maritime standing group that includes a U.S. destroyer. This is a follow-on to the highly successful visit of the USS WASP last October. These visits, plus our participation in a NATO air defense exercise scheduled for mid-August, are visible demonstrations of the

U.S. commitment to the 1951 Defense Agreement and constitute an important pillar in our post-Keflavik bilateral relationship. We continue the work of wrapping up the remaining legacy issues. You can expect the Prime Minister to raise NATO Air Policing; work in the NATO Military Committee on the issue has proved difficult. Another base-closing legacy issue is the Iceland Air Defense System (IADS), which the USG will stop funding on August 15. OSD Representative Jim Hursch is in town June 13 for another round of technical talks and will be available to join your discussions. On both points, the Icelandic government feels public pressure to demonstrate that Iceland's security has not been compromised by the U.S. departure.

¶4. (SBU) In most areas, though, the message of moving on from Cold War-era constructs has taken root. The government has just signed MOUs on enhanced defense cooperation with Norway and Denmark, is buying SAR equipment from Canada, and is endeavoring to build more formal security ties with the U.K. and Germany. The Icelanders are taking advantage of the first-rate facilities we left at Keflavik to create a university-level international educational institution as well as a technology park. While making it clear that the U.S. "unilateral" departure still grates on Icelandic sensitivities, Icelandic politicians and citizens are increasingly enthusiastic about the economic potential of the former base. Meanwhile, the Embassy's initiatives to broaden our ties to Iceland in such areas as trade and direct foreign investment, energy development, and scientific research are well-received by a public skeptical of USG policy but deeply fascinated by the U.S.

¶5. (SBU) On the economic front, you'll see ample evidence of a continuing economic boom in Reykjavik, thanks to utilization of fish and energy resources and leveraging of assets to invest abroad. The Viking spirit of risk taking, acquisition, and swift decisiveness have all helped to multiply Icelandic holdings in Europe. The U.S. market is likely the next target, and the business community has pressured the GOI for a free trade agreement with us. The Icelanders know the prospects are slim for the foreseeable future, but you are likely to hear of their abiding interest.

¶6. (SBU) Besides your meetings with the Prime Minister and the MFA, you will see the new Althingi speaker. Both Haarde and Gisladottir promised during the campaign that parliament would be given a bigger role in the foreign policy decision-making process, and this meeting is at the specific request of the MFA. It would be good to urge the speaker to send the homebound foreign relations committee on more foreign trips. Finally, the official part of your visit will be capped off by a short interview with the foremost political TV show plus a roundtable discussion with participants from the media, politics, and academia. We expect a lively exchange of ideas in which you will be asked to talk about bilateral issues as well as the War on Terrorism, the situation in Iraq, and our relationship with Iran.

¶7. (U) Have a good flight, and we'll see you tonight.

van Voorst